

# United States Senate

WASHINGTON, DC 20510

March 16, 2000

Dear Colleague:

One of the most complex and burdensome aspects of the tax code for many small businesses is also one of the most fundamental — their tax accounting method. In recent years, the Internal Revenue Service (IRS) has been on a mission to force as many small businesses out of the cash receipts and disbursements method and into accrual accounting. In addition, for many small service providers, the IRS has been forcing them to use inventory accounting.

According to accountants, the use of accrual accounting can increase a small business' accounting costs by as much as 50%. For small firms struggling to get their businesses off the ground, that's valuable capital thrown down the drain to pay for unnecessary recordkeeping. But if they don't comply, the costs can be quite high. A survey by the Padgett Business Services Foundation revealed that on the inventory accounting issue alone, a small business found by the IRS to be using the incorrect bookkeeping method can end up paying \$2,000 to \$14,000, with an average of \$7,200 in taxes, interest and penalties.

On March 9, 2000, we introduced the Small Business Tax Accounting Simplification Act of 2000 (S. 2246) to address these issues. The bill creates a simple \$5 million threshold for the cash method of accounting. For small companies with average annual gross receipts below that level, they can continue to use the cash method, and put the accounting cost savings back into productive use. In addition, for small service providers, the bill creates a straightforward threshold to let service providers avoid the onerous inventory-accounting rules.

Small business owners across the country have been clamoring for tax simplification. This legislation is a down payment on that goal. Please join us in this straightforward bill to infuse some common sense into our overly complicated tax code. Small businesses contribute greatly to this country's economy, and they deserve a break from needless government-imposed compliance costs.

If you would like to be a co-sponsor, or if you have any questions, please contact either of us or have your staff call Mark Warren, Tax Counsel for the Committee on Small Business, at 224-5175.

Sincerely,



Christopher S. Bond



Charles E. Grassley